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To ensure that the Government fully accounts for both its explicit liabilities and implicit commitments and adopts fiscal and economic policies that enable it to finance and manage these liabilities and commitments, to honor commitments to the Baby Boom and subsequent generations with regard to social insurance programs, and to provide for the national defense, homeland security, and other critical governmental responsibilities.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 21, 2003

Mr. LIEBERMAN introduced the following bill; which was read twice and referred jointly pursuant to the order of August 4, 1977, to the Committees on the Budget and Governmental Affairs, with instructions that if one committee reports, the other committee have thirty days to report or be discharged

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A BILL

To ensure that the Government fully accounts for both its explicit liabilities and implicit commitments and adopts fiscal and economic policies that enable it to finance and manage these liabilities and commitments, to honor commitments to the Baby Boom and subsequent generations with regard to social insurance programs, and to provide for the national defense, homeland security, and other critical governmental responsibilities.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE AND TABLE OF CONTENTS.

(a) SHORT TITLE.—This Act may be cited as the "Honest Government Accounting Act of 2003".

(b) TABLE OF CONTENTS.—The table of contents for this Act is as follows:

SEC. 2. FINDINGS.

Congress finds the following:

(1) Due to a variety of factors, in the last 2 years the Federal budgetary aggregates for the next decade have swung from a projected $5.6 trillion surplus to policies that could generate a $5.5 trillion deficit (Goldman Sachs September 2003), a decline of $11.1 trillion. Though this is a substantial deterioration in the country's financial condition, these short-term projections substantially understate the Nation's long-term fiscal imbalance.

(2) The United States Government has incurred different types of long-term liabilities and commitments, including $3.3 trillion debt held by the public net of holdings of the Federal Reserve System and also commitments to future beneficiaries of critical social insurance entitlement programs such as Social Security and Medicare.

(3) Congress and the public are well-informed about the long-term liabilities that arise from budget deficits and debt owed to the public. They are not well-informed about the commitments that arise from Government promises to pay social insurance entitlement benefits, to the Baby Boom and subsequent generations.

(4) These different types of liabilities and commitments are similar in many respects. While promised Social Security and Medicare benefits are not liabilities in the sense that government bills, notes, and bonds are liabilities, and the terms of these benefits have been modified many times in the past, participants do rely on these promises in planning for retirement and the programs are funded by a separate and dedicated payroll tax paid into a Trust Fund.

(5) In order to ensure that the Government has income and net assets sufficient to cover these long-term liabilities and commitments, as well as its ongoing discretionary spending for the national defense, homeland security, and other critical priorities, it is necessary that Congress and the public be fully apprised of the types and dimensions of these long-term liabilities and commitments and take actions to manage them prudently.

(6) The Government's liability to holders of public debt instruments is the outstanding value of the debt itself, net of holdings of the Federal Reserve System, currently $3.3 trillion.

(7) The net present value of the commitment to pay social insurance entitlement benefits, which represent obligations in addition to the debt held by the public net of Federal Reserve holdings, can be calculated. It is the present value of projected future social insurance entitlement benefits, minus the present value of future dedicated receipts. This difference equals the amount that, if put aside today, would be just sufficient to cover the imbalance between program benefits and receipts. But calculations of this imbalance are not widely publicized or understood. This is due in part to the widely re-

ported surpluses in the Social Security and Medicare Trust Funds, which convey a misleading picture of the long-term fiscal health of these social insurance entitlement programs. Reporting the accumulation of assets but not comparing them to commitments on a net basis is inconsistent and misleading.

(8) The Social Security surpluses of the last several decades thus create the illusion of solvency of the program and the lending of these surpluses to the government disguises the accumulation of mounting deficits in the rest of the Federal budget. For example, in fiscal year 2003, the reported surpluses in Social Security and Medicare Trust Funds exceeded $179 billion and these surpluses were used, in the budget and other budgetary aggregates, to decrease the reported total budget deficit for fiscal year 2002 from $317 billion to $158 billion and for fiscal year 2003 from $553 billion to $374 billion. Had the commitments to pay future entitlement benefits been reflected in their annual results, their reported surpluses would have disappeared and the Trust Funds would have reported annual losses of $1.5 trillion. In the coming years, the annual Social Security and Medicare surpluses are projected to rise to more than $200 billion per year. Unless our

system of budgetary accounting for Social Security and Medicare is reformed, these surpluses will continue to disguise the size of our annual deficit and distort our budgetary priorities. Presenting Social Security and Medicare's financial condition in a more realistic manner would not only clarify the true extent of the country's mounting long-term liabilities and commitments but also encourage responsible and timely reform of the Social Security and Medicare programs.

(9) Comparing the present value of receipts and expenditures is standard operating procedure in mortgage lending and investment banking. But it plays no meaningful role in assessing the Government's overall fiscal position. Instead, the Government works on a short-term obligation and cash-based budgets basis that only looks a few years into the future.

(10) The most appropriate way to assess Government finances is to calculate its net assets under current policies: The net present value of all prospective receipts minus the net present value of all prospective outlays and minus outstanding debt held by the public. Net present value accounting differs from accrual accounting. Although appropriate for

private sector entities whose operations can potentially terminate in the future, accrual accounting is potentially misleading and incomplete for an entity such as the Federal Government that is expected to continue operating indefinitely. For Government social insurance programs such as Social Security and Medicare accrual accounting would count only the liabilities accrued to date. Moreover, these commitments would be calculated in such a way as to assume that these programs are immediately terminated and that the Government must pay off existing obligations according to a particular method of evaluating their size. By way of contrast, a focus on net present values includes liabilities and income we know will accrue in the future for future beneficiaries (e.g. the Baby Boomers and all future generations). These values focus squarely on the extent to which current programs such as entitlements are sustainable into the future. They seek to redress the short sightedness and potentially misleading focus we find in the current Budget Act and Budget resolutions and public discourse about cash flow measures of Government finances, deficits, and public debt.

(11) Although they are not well-publicized and play no formal role in budget and planning, calculations of the Government's commitment to pay social insurance entitlement benefits to the Baby Boom and subsequent generations already are provided routinely in public Government documents. For several decades, calculations under current policies have been provided for a 75-year period, but recently calculations are being prepared for an indefinite time period. Examples of such reports are as follows:

(A)(i) The Financial Report of the United States Government, prepared by the Treasury Department, presents a calculation of the difference between the present value of projected future entitlement payments and projected future payroll tax and other dedicated receipts over a 75-year period. The 2002 report issued by Treasury Secretary John Snow finds that, excluding the trust fund balances, the net present value of benefit payments for Social Security (OASDI) in excess of contributions and earmarked taxes is $4.562 trillion. For Medicare (Part A, HI) it is $5.126 trillion. Trust Fund balances are excluded according to the report because to finance Trust Fund redemptions "the Government must raise taxes, increase borrowings from the public, cut spending for other programs, retire less debt, or some combination thereof." For Supplemental Medical Insurance (Medicare Part B) the 2002 report calculated the shortfall to be $8.125 trillion. The total negative cash flow, calculated as a net present value, is $18 trillion, which is roughly 5 times as great as the debt held by the public, $3.1 trillion. Taken together, this measure of the public debt and long-term social insurance entitlement commitments is equal to more than twice the current year United States Gross Domestic Product, which is approximately $10.5 trillion.

(ii) The fiscal year 2004 budget provides an update of the same imbalance over a 75-year period. It calculates that the "combined shortfall in Social Security and Medicare" is $18 trillion. It asserts, "It would take an additional $18 trillion in today's dollars to pay for the obligations of these systems as they are now constituted." With regard to Medicare, it calculates "the (Medicare prescription drug) bills that advanced furthest in the last Congress would have increased the Medicare long-term unfunded promise liability by an estimated $4.6 trillion and $5.9 trillion, respectively.'' Putting the $18 trillion in perspective is the fact that total household wealth in the United States in 2002 was $42.4 trillion (2001 Survey of Consumer Finances). ''This means that the Federal Government would have to confiscate almost half of all household wealth to have the resources necessary to close both of these programs' future financial gaps,'' it concludes.

(B)(i) The net present value of Social Security and Medicare commitments would be significantly larger if calculated over a horizon longer than 75 years, because of the substantial imbalance between revenues and expenditures that is projected for the end of the 75-year period and likely to continue well beyond it. As all future cash flows are relevant, calculations of the full present value commitment should be based on the longest time period for which projections are feasible. A 75-year time period credits all of the payroll tax revenues from individuals alive during this period but compares them only to the benefit payments that will be made to them during the 75-year period and not the full benefit payments that are due.

(ii) The former Deputy Assistant Secretary for Economic Policy for the Treasury Department, and a Senior Economist of the Federal Reserve Bank of Cleveland, have published calculations they prepared for the Government of the net present value of the negative cash flow for Social Security and Medicare based on an infinite-horizon measure. Using policy-inclusive budget projections and economic growth and discount rate assumptions of the Office of Management and Budget, their analysis finds that the fiscal imbalance for Social Security is $7 trillion and for Medicare (parts A and B) is $36.6 trillion. Taken together this imbalance is over 14 times the debt held by the public and roughly equal to the total family net worth of the 104 million United States households ($42.4 trillion). They find that the Federal Government's fiscal imbalance equals 16.6 percent of the present discounted value of future payrolls, and that if the Government fails to set aside these funds, the fiscal imbalance will grow by $1.6 trillion each year during the next 4 years. They calculate that the Medicare prescription drug bills that advanced the furthest in the last Congress in the House and Senate would have increased the Medicare long-term unfunded promise liability by $12 trillion and $24 trillion, respectively. An option that would close most but not all of the imbalance is to permanently eliminate ½ of all that Government does, aside from Social Security and Medicare.

(iii) The 2003 report of the Social Security Trustees includes a calculation under current policies of the net present value of the negative cash flow for Social Security commitments based on an infinite-horizon measure. Using their own economic growth and discount rate assumptions and not counting the Treasury securities held in the OASDI programs' Trust Funds, the Social Security Trustees find that the fiscal imbalance for that program amounts to $11.9 trillion. The Social Security Trustees' measure excludes Trust Funds' securities because these assets of the OASDI programs constitute liabilities of the Treasury and, thus, do not constitute a net asset for the Federal Government as a whole. Its calculation of the net present value of the shortfall over 75 years is $4.927 trillion. The report states, ''Over emphasis of summary measures . . . for the 75-year period can lead to incorrect perceptions and policy that fails to address sustainability.''

(12) Another way to view this challenge is to calculate under current policies how much, as a share of Gross Domestic Product, our Government would have to put aside every year in order to finance a major imbalance between receipts and benefits. Based on the Gross Domestic Product projections and discount factors in last year's Social Security and Medicare Trustees Report, the amount needed to meet an imbalance is approximately 3.3 percent of Gross Domestic Product, annually, for the full 75-year or indefinite period. For 2002, that would be approximately $362 billion per year with reference to the calculation under current policies for the 75-year period and $679 billion per year in 2002 dollars with reference to the calculation for the indefinite period.

(13) Because, the fiscal imbalance estimate is similar to a ''stock of debt'' it is more appropriate to compare it to another stock measure such as the

present discounted value of the Gross Domestic Product or a tax base out of which the overall (or each particular program's) fiscal imbalance would be financed. Although some view it useful to calculate the share of each year's Gross Domestic Product that must be set aside to pay for the imbalance, the entire Gross Domestic Product does not (and is not likely to ever) constitute the base on which taxes are levied. For example, the service flow from the Nation's housing stock and depreciated capital are not currently (nor are ever likely to be) included in the Federal tax base. Hence, it would be better to calculate the share of a tax base that must be set aside annually to finance the imbalance. For example, it would be most useful to show the imbalance arising from Social Security and Medicare programs as a share of the present discounted value of their respective revenue bases, and the fiscal imbalance on account of the rest of Federal operations (non-Social Security and non-Medicare) as a share of the present discounted value of the revenue base excluding the payroll tax base.

(14) The net present value of the debt held by the public of $3.3 trillion is approximately $11,290 for each American citizen (292,285,000). By way of

comparison, the value of the entitlement commitments funding imbalance of $43.6 trillion is $149,175 per United States citizen. Adding this debt held by the public ($3.3 trillion), the possible increase in this debt held by the public due to current policy measures ($5.5 trillion), and the implicit entitlement commitments ($43.6 trillion)—a net present value of $52.5 trillion—the per capita amount is $178,600.

(15) The staggering size of these alternative requisite fiscal adjustments reflects the enormous social insurance entitlement commitments associated with the imminent retirement of the Baby Boom generation and the shortfall in payroll tax receipts to cover them. There are 77 million individuals in the Baby Boom generation. In addition, America has absorbed 8 million immigrants in this age group. It is by far the largest generation in United States history. On September 2, 2011, the first Baby Boomers, defined as those born after the end of World War II through 1964, will turn 66 and begin to draw full Social Security benefits. This is only 8 years from now. Baby Boomers can begin drawing full Medicare benefits in 2010 at age 65.

(16) In focusing on the dimensions of the Government's promise to pay social insurance entitlement benefits, it is useful and necessary also to focus on the relationship of other Government spending programs and other Government revenues. Focusing only on the funding of social insurance entitlement benefits and not on the funding available for other commitments gives policy makers a perverse incentive to arbitrage funding for the former at the expense of the latter.

(17) Policies that substantially increase rather than retire the debt held by the public, whether through increases in spending or reduction in revenues, will make it much more difficult to cover the Government's long-term social insurance entitlement commitments. It is well understood that two options to reduce or eliminate the funding imbalances in Social Security and Medicare are reducing promised benefits to beneficiaries and bringing more revenues into the systems, either from payroll tax increases, transfers of general revenue, or borrowing. Both the level of debt held by the public and the long-term fiscal balance of the rest of the Government affect its ability to fund and absorb these measures. Therefore, it is necessary to track the long-term fiscal im-

balance in the rest of the budget as well as in Social Security and Medicare. The options for honoring these commitments, managing the change in demographics for these programs, and putting these programs on a sustainable basis are exponentially more challenging as the Government's general revenue base, annual deficits, and public debt deteriorate. Every proposal to substantially increase spending or reduce revenues must be analyzed for its impact on the ability of the Government to fund and absorb these measures. It will be very difficult under current policies for the Government to cover these commitments, make needed infusions of general revenue, and maintain any level of financial support for the national defense, homeland security, education, and other priorities. It is also true that even if we retire the debt held by the public, we face a huge shortfall in dedicated receipts to cover these commitments and massive pressure on general revenue funded programs if the Government provides infusions of general revenue to cover the shortfall in social insurance entitlement program payroll tax receipts.

(18) The methodology for preparing net present value calculations is well understood. The Federal Government utilizes, and requires private sector en-

tities to utilize, net present value calculations in a variety of contexts such as the following:

(A) Office of Management and Budget utilizes net present value analysis under OMB Circular A–94 and every agency of the Government is already experienced in utilizing these analyses as an integral element of their decisionmaking. The Circular applies this type of analysis broadly to ‘‘any analysis to support Government decisions to initiate, renew, or expand programs or projects which would result in a series of measurable benefits or costs extending for three or more years into the future.’’ This includes any analysis of the ‘‘benefit-cost or cost-effectiveness of Federal programs or policies,’’ ‘‘regulatory impact analysis,’’ ‘‘analysis of decisions to lease or purchase,’’ and ‘‘asset valuation and sale analysis.’’ The use of this methodology is found to ‘‘promote efficient resource allocation through well-informed decision-making by the Federal Government.’’ The Circular finds that the ‘‘standard criterion for deciding whether a government program can be justified on economic principles is net present value—the discounted monetized value of expected net benefits (i.e., benefits minus costs).'' It specifies, ''Net present value is computed by assigning monetary values to benefits and costs, discounting future benefits and costs using an appropriate discount rate, and subtracting the sum total of discounted costs from the sum total of discounted benefits. Discounting benefits and costs transforms gains and losses occurring in different time periods to a common unit of measurement. Programs with positive net present value increase social resources and are generally preferred. Programs with negative net present value should generally be avoided.

(B) Under the Internal Revenue Code and the Employee Retirement Income Security Act (ERISA), the Federal Government requires private companies to calculate the present values of their accrued pension liabilities to determine the sustainability and integrity of their private defined-benefit pension and other benefit plans. This calculation adds together the current year's benefit payout and the increase in the present value of the firm's accrued benefits discounted at a prespecified interest rate. The estimate of accrued benefits uses information on the age profile and expected mortality of the company's workforce and the company's benefit formulae for determining expected future payouts. The present value of current plus accrued future benefits is then compared to the balance in the company's pension fund dedicated to paying pension benefits to determine the plan's financial adequacy. If the pension fund is underfunded (it's balance covers less than 90 percent of the firm's current plus accrued future liabilities), the firm is required to make additional ''deficit reduction contributions'' intended to returning the fund to financial adequacy over time. The Federal Government currently does not require any similar funding requirement for its public pension and health-care systems, including Social Security and Medicare.

(19) The Government and public need to face these realities, understanding the scope and magnitude all of the Government's long-term liabilities and commitments. The Government and the public must prepare and adopt realistic long-term financial plans, not aggravate the challenge by adding to the debt held by the public, and take decisive steps to

prepare for the retirements of the Baby Boomers and subsequent generations. The Government needs to ensure that its liabilities can be met, its commitments to beneficiaries are realistic, and that the impact of these liabilities and commitments does not undermine the ability of the Government to fund other critical priorities.

(20) A prudent financial plan would reduce the Government's net long-term liabilities and commitments from approximately 16.6 percent of the present discounted value of future payrolls to less than 1.25 percent ($5 trillion). It is plausible that the Government can finance a liability and commitment of this magnitude through higher taxes or less spending in the future and it becomes increasingly implausible if the liability and commitment exceeds 1.25 percent of the discounted value of payrolls. Such a plan would also place constraints on proposals and actions that would adversely affect the net present value of these long-term liabilities and commitments and would remove constraints that prevent the consideration of responsible actions and reforms. At a minimum, it is not prudent for the Government to add to the debt held by the public and net present value of its social insurance entitle-

ment commitments. The longer our Government fails to face reality and take action to prepare for the Baby Boom retirements, the greater the pain will be and the fewer options for reform it will have.

SEC. 3. PREPARATION OF NET PRESENT VALUE CALCULATION OF MAJOR LIABILITIES AND COMMITMENTS.

(a) IN GENERAL.—Section 331(e) of title 31, United States Code, is amended by adding at the end the following:

"(3)(A) The financial statement of liabilities required by paragraph (2) shall include a calculation under current policies of the net present value of the overall liabilities and commitments of the United States Government which shall include—

"(i) calculations of the net present value of all future government spending other than spending incident to servicing the current and future net debt held by the public; the net present value of all future government tax and nontax receipts, including tax receipts, net income of public enterprises, fees, and other levies imposed on United States citizens and residents; and net annual transfers to the Treasury from the Federal Reserve System;

"(ii) the outstanding debt held by the public;

"(iii) calculations of the net present value of commitments and receipts of the Federal Old-Age and Survivors Insurance (OASI) Trust Fund, the Federal Disability Insurance (DI) Trust Fund, the Federal Hospital Insurance (HI) Trust Fund, and the Federal Supplementary Medical Insurance (SMI) Trust Fund using the most recent available long-term, intermediate projections by the Trustees of such Trust Funds of revenues, expenditures, and discount factors, as represented in such annual reports;

"(iv) calculations of the net present value of commitments and receipts of the Railroad Retirement and Black Lung (part C) programs;

"(v) calculations of the net present value of receipts to the Federal retirement and health insurance systems, both civil and military; and

"(vi) the present discounted values of payroll and nonpayroll tax bases separately. The items to be estimated are the present discounted values of—

"(I) payroll subject to taxes on account of OASDI;

"(II) payroll subject to taxes on account of HI-Part A;

"(III) premiums on account of HI-Part B;

"(IV) personal income taxes;

"(V) corporate income taxes;

"(VI) excise taxes;

"(VII) customs duties;

"(VIII) estate and gift taxes;

"(IX) Federal retirement contributions;

"(X) unemployment insurance premiums; and

"(XI) miscellaneous receipts not included in subclauses (I) through (X).

"(B)(i) For each calculation under subparagraph (A), calculations shall be provided for—

"(I) a 75-year horizon; and

"(II) an indefinite time horizon.

"(ii) For the 75-year horizon under clause (i)(I), each calculation shall take each year's expenditures minus revenues, divide this difference by the projected discount factor for that year, and add the resulting 75 annual discounted flows to obtain the program's net present value imbalance. The long-term discount and growth rates utilized in these calculations shall be discussed in the report and consistent with those utilized by the Department of Treasury and other Government agencies with regard to other long-term financial calculations. For purposes of the calculations in clauses (iii), (iv), and (v) of subparagraph (A), revenues will include payroll taxes as allocated by law to the respective Trust Funds (currently the case for OASI, DI, and HI), participant premiums (for SMI), general revenue receipts from the taxation of benefits, as currently allocated by law to the OASI, DI, and HI Trust Funds, and funding for the Federal retirement and health insurance systems, both civil and military. For purposes of this calculation, revenues will not include interest income on Trust Fund and transfers of general revenue to SMI, Social Security, or Medicare.

"(iii) For the indefinite time horizon under clause (i)(II), the calculations shall follow the procedures provided in clause (iii), but shall be based on extended projections that go beyond the 75-year projections currently available.

"(4) The financial statement shall include a calculation under current policies of the net present value of benefits and projected benefits to past and current participants described in clauses (iii), (iv), and (v) of paragraph (3)(A), including the present value of projected benefits to current participants, less the present value of projected taxes paid by current participants less the current trust fund balances (the Closed Group Unfunded Obligation).

"(5) The financial statement shall include a calculation under current policies of the net present value of benefits and projected benefits to past, current, and future participants described in clauses (iii), (iv), and (v) of paragraph (3)(A), including the present value of projected benefits to current and future participants, less the present value of projected taxes paid by current and future participants less the current trust fund balances (the Open Group Unfunded Obligation).

"(6) The financial statement shall include a calculation under current policies of the net present value of the overall revenues and expenditures of the United States Government, aside from commitments to the programs described in clauses (ii), (iii), and (iv) of paragraph (3)(A), over—

''(i) a 75-year horizon; and

''(ii) an indefinite time horizon.

''(7)(A) The ratio of the fiscal imbalance arising from OASDI as a share of the present discounted value of clause (vi)(I).

''(B) The ratio of the fiscal imbalance arising from the HI program (parts A and B) as a share of the present discounted value of clause (vi) (II) and (III).

''(C) The ratio of the fiscal imbalance arising from the rest of Federal operations as a share of the sum of present discounted values in clause (vi) (IV) through (XI).

''(8) The financial statement shall include the assumptions and details of the methods used in making the calculations in paragraph (3)(A). It shall separately identify and provide a detailed description of the methods and assumptions used in making projections of tax revenues, premiums, other receipts from all sources including inter-fund transfers and interest income on securities held in trust funds, benefit outlays distinguished by the type of benefit, and administrative expenses. The financial statement shall also provide details regarding demographic assumptions such as fertility, mortality, immigration, and labor-force participation rates, dependency ratios, and economic assumptions such as trust fund interest rates, discount rates, revenue and benefit growth rates, health-care expenditure growth rates, productivity growth rates, and inflation rates. The information should include a description of all other intermediate steps and variables used and projected in making these calculations.''.

(b) FIRST CALCULATION.—The first calculations required by section 331(e)(3) of title 31, United States Code, as added by subsection (a), shall be submitted 180 days following the date of enactment of this Act unless such date falls within 60 days of March 31. Subsequent calculations under that section shall be included in the finance report required by section 331(e)(3)(A)(i) of title 31, United States Code.

(c) GOVERNMENT'S OVERALL LIABILITIES AND COMMITMENTS.—In this Act, the term ''Government's overall liabilities and commitments'' shall refer to calculations prepared under section 331(e)(3)(A)(i) of title 31, United States Code, enacted herein.

(d) PRESENT DISCOUNTED VALUE OF ALL FUTURE PAYROLLS.—In this Act, the term ''present discounted value of all future payrolls'' means the present discounted value of gross wages and salaries and all federally taxable compensation.

SEC. 4. PRESIDENTIAL PLAN FOR REDUCING THE NET PRESENT VALUE OF OVERALL LIABILITIES AND COMMITMENTS.

(a) IN GENERAL.—If the total of debt held by the public added to the calculation under current policies of the net present value of the overall liabilities and commitments of the United States Government published, as required by section 331(e)(3)(A)(i) of title 31, United States Code, exceeds 1.25 percent of the present discounted value of all future payrolls not later than September 15, 2005, the President shall submit to Congress and the Commission on Long-Term Government Liabilities and Commitments established by section 5 a plan or plans that will reduce the total to a level in net present value calculated as of September 2, 2011, no greater than 1.25 percent of such discounted value of all future payrolls as of September 2, 2011. Plans shall be submitted with regard to calculations based both on a 75-year horizon and an indefinite horizon. The assumptions and details of the methods used in making the calculations incorporated in the plan or plans shall be consistent with those utilized in the financial statement published under section 331(e) of title 31, United States Code.

(b) CONTENTS.—The plan or plans required by subsection (a) shall include alternative strategies to meet the goal.

SEC. 5. COMMISSION ON LONG-TERM GOVERNMENT LIABILITIES AND COMMITMENTS.

(a) IN GENERAL.—There is established a commission to be known as the "Commission on Long-Term Government Liabilities and Commitments" (referred to in this section as the "Commission").

(b) RECOMMENDATIONS FOR REFORM.—Not later than December 15, 2005, the Commission shall make recommendations to the President and Congress of reforms that will reduce the total of debt held by the public added to the calculation under current policies of the net present value of the Government's overall liabilities and commitments published, as required by section 331(e)(3)(A)(i) of title 31, United States Code, to a level that is not greater than 1.25 percent of the percent discounted value of all future payrolls, as of September 11, 2011. The assumptions and details of the methods used in making the calculations incorporated in the recommendations shall be consistent with those utilized in the financial statement published under section 331(e) of title 31, United States Code, unless the Commission elects to make recommendations based on other assumptions and methods for which a detailed explanation and rationale is presented. The recommendations of the Commission shall be approved by a two-thirds vote of the members of the Commission.

(c) CONTENTS.—The recommendations required by subsection (a) shall—

(1) include several alternative strategies to meet the goal including strategies that meet this goal solely by—

(A) reducing Government expenditures; and

(B) increasing Government revenues; and

(2) include an evaluation of the recommendations submitted to Congress and the Commission by the President, as required by section 4.

(d) LEGISLATIVE LANGUAGE.—The recommendations required under subsection (a) shall include legislative language necessary for carrying out such recommendations. The Commission shall develop such legislative language after conducting such public hearings and consulting with such public or private entities as the Commission considers necessary and appropriate to make the recommendations required under subsection (a).

(e) MEMBERSHIP.—

(1) IN GENERAL.—The Commission shall be composed of 17 members as follows:

(A) One congressional Member shall be appointed by the Speaker of the House of Representatives.

(B) The Chairman of the Committee on Ways and Means of the House of Representatives.

(C) One congressional Member shall be appointed by the Minority Leader of the House of Representatives.

(D) The Ranking Member of the Committee on Ways and Means of the House of Representatives.

(E) One congressional Member shall be appointed by the Majority Leader of the Senate.

(F) The Chairman of the Committee on Finance of the Senate.

(G) One congressional Member shall be appointed by the Minority Leader of the Senate.

(H) The Ranking Member of the Committee on Finance of the Senate.

(I) The Secretary of the Treasury.

(J) The Secretary of Labor.

(K) The Secretary of Health and Human Services.

(L) Six members to be appointed by the President by and with the advise and consent of the Senate to be individuals from the private sector with expertise in government fiscal policy, long-term macroeconomic policy, retirement and health care plan structure and funding, intergenerational accounting, and demographics.

(2) DEADLINE FOR APPOINTMENTS.—The members of the Commission shall be appointed not later than February 1, 2005.

(3) CO-CHAIRMEN.—The Commission shall designate 2 members of the Commission to serve as Co-chairmen of the Commission, one of whom shall be the individual appointed under subparagraph (C), (D), (G), or (H) of paragraph (1).

(4) TERMS.—Each member of the Commission shall serve on the Commission and, with respect to the Co-chairmen, in such capacity, until the earlier of the date the Commission terminates or September 30, 2005.

(5) VACANCIES.—Any vacancy in the membership of the Commission shall be filled in the manner in which the original appointment was made and

shall not affect the power of the remaining members to execute the duties of the Commission.

(f) QUORUM.—A quorum shall consist of 7 voting members of the Commission.

(g) MEETINGS.—

(1) IN GENERAL.—The Commission shall meet at the call of the Co-chairmen or a majority of its members.

(2) INITIAL MEETING.—The Commission shall conduct its first meeting not later than March 1, 2005.

(3) OPEN MEETINGS.—Each meeting of the Commission, other than meetings in which classified information is to be discussed, shall be open to the public.

(h) POLICIES AND PROCEDURES.—The Commission shall establish policies and procedures for carrying out the functions of the Commission under this section.

(i) STAFF DIRECTOR AND STAFF.—

(1) STAFF DIRECTOR.—The Co-chairmen, with the advice and consent of the members of the Commission, shall appoint a Staff Director who is not otherwise, and has not during the 1-year period preceding the date of such appointment served as, an officer or employee in the executive branch and who

is not and has not been a Member of Congress. The Staff Director shall be paid at a rate not to exceed the rate of basic pay payable for level IV of the Executive Schedule under section 5315 of title 5, United States Code.

(2) STAFF.—

(A) IN GENERAL.—The Staff Director, with the approval of the Commission, may appoint and fix pay of additional personnel. The Staff Director may take such appointments without regard to the provisions of title 5, United States Code, governing appointment in the competitive service, and any personnel so appointed may be paid without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title relating to classification and General Schedule pay rates, except that an individual so appointed may not receive pay in excess of the annual rate of basic pay payable for level V of the Executive Schedule under section 5316 of such title.

(B) DETAILEES.—Upon request of the Staff Director, the head of any Federal department or agency may detail any of the personnel of that department or agency to the Commission to assist the Commission in carrying out its duties under this Act. Not more than $1/3$ of the personnel employed by or detailed to the Commission may be on detail from any single Federal agency.

(j) POWERS.—

(1) HEARINGS AND OTHER ACTIVITIES.—For the purpose of carrying out its duties, the Commission may hold such hearings and undertake such other activities as the Commission determines to be necessary to carry out its duties.

(2) STUDIES BY GENERAL ACCOUNTING OFFICE.—Upon the request of the Commission, the Comptroller General shall conduct such studies or investigations as the Commission determines to be necessary to carry out its duties.

(3) COST CALCULATIONS BY CONGRESSIONAL BUDGET OFFICE.—Upon the request of the Commission, the Director of the Congressional Budget Office shall provide to the Commission such cost estimates as the Commission determines to be necessary to carry out its duties.

(4) TECHNICAL ASSISTANCE.—Upon the request of the Commission, the head of a Federal agency shall provide such technical assistance to the

Commission as the Commission determines to be necessary to carry out its duties.

(5) USE OF MAILS.—The Commission may use the United States mails in the same manner and under the same conditions as Federal agencies, and shall, for purposes of the frank, be considered a commission of Congress as described in section 3215 of title 39, United States Code.

(6) OBTAINING INFORMATION.—The Commission may secure directly from any Federal agency information necessary to enable it to carry out its duties, if the information may be disclosed under section 552 of title 5, United States Code. Upon request of the Co-chairmen of the Commission, the head of such agency shall furnish such information to the Commission.

(7) ADMINISTRATIVE SUPPORT SERVICES.—Upon the request of the Commission, the Administrator of General Services shall provide to the Commission on a reimbursable basis such administrative support services as the Commission may request.

(8) ACCEPTANCE OF DONATIONS.—The Commission may accept, use, and dispose of gifts or donations of services or property.

(9) PRINTING.—For purposes of costs relating to printing and binding, including the costs of personnel detailed from the Government Printing Office, the Commission shall be deemed to be a committee of Congress.

(k) TERMINATION.—The Commission shall terminate 15 days after the date of submission of the recommendations for reform required under subsection (b).

(l) AUTHORIZATION OF APPROPRIATIONS.—There is authorized to be appropriated to carry out this section, $5,000,000 for the Commission to carry out its duties under this section.

SEC. 6. SUBMISSION OF NET PRESENT VALUE CALCULATION AND PLAN TO ACCOMPANY LEGISLATIVE RECOMMENDATIONS INCLUDED IN THE PRESIDENT'S BUDGET.

(a) NET PRESENT VALUE CALCULATION.—

(1) IN GENERAL.—The President shall submit to Congress for any proposed permanent changes in law calculations under current policies of the impact on the net present value of Government's overall liabilities and commitments over 75 years and over an indefinite time horizon for any legislative recommendation or recommendations other than annual appropriations included in the Budget of the United

States with an adverse impact in the aggregate greater than 0.25 percent of the present discounted value of all future payrolls over 75 years or over an indefinite time horizon.

(2) METHODOLOGY.—In making calculations under this subsection, the President shall utilize the same calculation methodology as provided in section 331(e)(3) of title 31, United States Code, as added by this Act. The assumptions and details of the methods used in making the calculations incorporated in the plan or plans shall be consistent with those utilized in the financial statement published under section 331(e) of title 31, United States Code.

(3) ASSUMPTIONS.—The calculation required by this subsection shall assume that the legislative recommendation or recommendations other than annual appropriations will be a permanent change in law and disregard any changes in the terms of the legislative recommendation beyond the date of enactment, or any formula or mechanism for adjustments in the recommendations beyond this date to the extent that such change, formula, or mechanism decreases the net present value of the Government's overall liabilities and commitments over 75 years or an indefinite time horizon.

(b) PLAN.—If the net present value of the Government's overall liabilities and commitments of a legislative recommendation or recommendations is found to have an adverse impact greater than 0.25 percent of the present discounted value of all future payrolls over 75 years or an indefinite horizon, the President shall submit a plan to accompany such recommendation or recommendations that reduces the total of debt held by the public added to the calculation of the net present value of the Government's overall liabilities and commitments published, as required by section 331(e)(3)(A)(i) of title 31, United States Code, to a level that exceeds 1.25 percent of the present discounted value of all future payrolls as of September 11, 2011. Such plan shall be submitted with regard to calculations based both on a 75-year horizon and an indefinite horizon.

(c) CONTENTS.—The plan required by subsection (b) shall include several alternative strategies to meet the goal.

SEC. 7. CONGRESSIONAL BUDGET RESOLUTION.

Section 301(a) of the Congressional Budget Act of 1974 (2 U.S.C. 631(a)) is amended—

(1) in paragraph (6), by—

(A) striking ‘‘For’’ and inserting ‘‘for’’; and

(B) striking "and" after the semicolon;

(2) in paragraph (7), by—

(A) striking "For" and inserting "for"; and

(B) striking the period; and

(3) by adding after paragraph (7) the following:

"(8) calculations for the immediately preceding fiscal year of the impact of the resolution on the net present value of the Government's overall liabilities and commitments over—

"(A) a 75-year horizon; and

"(B) an indefinite time horizon;

as determined using the methodology of section 331(e)(3)(A)(i) of title 31, United States Code.".

SEC. 8. POINT OF ORDER ESTABLISHED AGAINST LEGISLATION ADVERSELY AFFECTING NET PRESENT VALUE OF GOVERNMENT'S OVERALL LIABILITIES AND COMMITMENTS.

(a) REPORT.—Section 308(a)(1) of the Congressional Budget Act of 1974 (2 U.S.C. 639(a)(1)) is amended—

(1) in subparagraph (B), by striking "and" after the semicolon;

(2) in subparagraph (C), by striking the period and inserting "; and"; and

(3) by adding at the end the following:

"(D) calculations under current policies of the impact on the net present value of the Government's liabilities and commitments of any measure with an adverse impact greater than exceeds 0.25 percent of the present discounted value of all future payroll taxes over 75 years or an indefinite period as determined using the methodology of section 331(e)(3)(A)(i) of title 31, United States Code. The assumptions and details of the methods used in making this calculation shall be consistent with those utilized in the financial statement published under section 331(e) of title 31, United States Code, unless the responsible official or agency elects to make calculations based on other assumptions and methods for which a detailed explanation and rationale is presented.".

(b) POINT OF ORDER.—Section 312 of the Congressional Budget Act of 1974 (2 U.S.C. 643) is amended by adding at the end the following:

"(g) NEGATIVE IMPACT ON NET PRESENT VALUE OF GOVERNMENT'S OVERALL LIABILITIES AND COMMITMENTS.—It shall not be in order in the House of Representatives or the Senate to consider any bill or resolution (or amendment, motion, or conference report on that bill or resolution) that changes direct spending or revenues that would, when considered together with any other legislation passed by that House or enacted prior to such consideration during that calendar year, cause an adverse impact on the net present value of the Government's overall liabilities and commitments incurred by that measure over 75 years or an indefinite time horizon that is greater than 1.25 percent of the present discounted value of all future payrolls. The calculation required by this subsection shall assume that the legislative measure subject to the point of order will be a permanent change in law and disregard any changes in the terms of the legislative measure and any formula or mechanism for adjustments in the recommendations beyond the date of enactment to the extent that such change, formula, or mechanism increases the net present value of the Government's overall liabilities or commitments over 75 years or an indefinite time horizon.''.

(c) 60 VOTES.—Section 904 of the Congressional Budget Act of 1974 (2 U.S.C. 621 note) is amended—

(1) in subsection (c)(1), by inserting ''312(g),'' before ''313''; and

(2) in subsection (d)(2), by inserting ''312(g),'' before ''313''.

SEC. 9. TRUSTEES REPORT OF LIABILITIES.

Section 201(c) of the Social Security Act (42 U.S.C. 401(c)) is amended by adding at the end the following: "In such report the Trustees shall include a calculation of the present value of projected benefits to current participants, minus the present value of projected revenues from current participants and current trust fund balances (the Closed Group Unfunded Obligation), including all supplemental information required by Federal Financial Accounting Standard No. 17 Social Insurance. The report shall also include the net present value calculations related to the Trust Funds specified in section 3 and such other supplemental information as the Trustees deem appropriate. In the annual report and other public statements regarding Trust Fund solvency, the Trustees shall give prominence to the Closed Group Unfunded Obligation and also the annual change in the Closed Group Unfunded Obligation. To the extent that the annual performance of the Social Security system is consolidated into Federal budgetary aggregates reported by the Congressional Budget Office, the General Accounting Office, or the Office of Management and Budget, annual changes in the Closed Group Unfunded Obligation shall be included.".

SEC. 10. TREASURY DEPARTMENT ANALYSIS OF TAX PROVISIONS PRESENT VALUE.

(a) PRESENT VALUE.—Not later than 6 months after the date of enactment of this Act, the Secretary of Treasury shall analyze and report to Congress regarding the methodology and utility of preparing calculations of the net present value of specific provisions of the Internal Revenue Code of 1986 that defer tax liability or cause long-term revenue effects that are not captured in a cash flow estimate over 5 or 10 years.

(b) LONG-TERM.—Not later than 12 months after the date of enactment of this Act, the President shall submit to Congress a calculation under current policies of the impact on the net present value of the Government's overall liabilities and commitments over 75 years and over an indefinite time horizon for current tax expenditures and any tax legislative recommendation included in the Budget of the United States that have an adverse impact greater than exceeds 1.25 percent of the present discounted value of all future payrolls over 75 years and over an indefinite time horizon.

SEC. 11. BAR USE OF EXPEDITED PROCEDURES TO ENACT LEGISLATION THAT AGGRAVATES THE BUDGET DEFICIT OR REDUCES THE BUDGET SURPLUS.

Section 310 of the Congressional Budget Act of 1974 (2 U.S.C. 641) is amended by adding at the end the following:

"(i) LIMITATION TO BUDGET ENFORCEMENT.—It shall not be in order in the Senate or House of Representatives to consider any reconciliation bill or resolution reported pursuant to a concurrent resolution on the budget that increases the deficit or reduces the surplus for the budget year, for the total period of years covered by the concurrent resolution on the budget or that changes direct spending or revenues causing an adverse impact on the net present value of United States Government liabilities and commitments over 75 years or an indefinite time horizon.".

SEC. 12. REINSTATEMENT OF PAY-AS-YOU-GO ENFORCEMENT.

(a) STATUTORY ENFORCEMENT.—

(1) IN GENERAL.—Section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 (2 U.S.C. 902) is amended—

(A) in subsection (a), by striking "enacted before September 30, 2002,";

(B) in subsection (b), by striking ‘‘enacted before September 30, 2002,’’; and

(C) by adding at the end the following:

‘‘(f) DECLARATION OF WAR.—Notwithstanding any other provision of this Act, subsection shall apply in any fiscal year unless a declaration of war is in effect.’’.

(2) PAY-AS-YOU-GO ADJUSTMENT.—Upon the enactment of this section, the Director of the Office of Management and Budget shall change any balance of direct spending and receipts legislation for fiscal year 2003 under section 252 of the Balanced Budget and Emergency Deficit Control Act of 1985 to zero.

(b) PAY-AS-YOU-GO RULE IN CONGRESS.—

(1) POINT OF ORDER.—

(A) IN GENERAL.—It shall not be in order in the Senate or the House of Representatives to consider any direct spending or revenue legislation that would decrease the on-budget surplus, increase the on-budget deficit, or cause an on-budget deficit for any one of the three applicable time periods as measured in subparagraphs (E) and (F).

(B) APPLICABLE TIME PERIODS.—For purposes of this paragraph the term ‘‘applicable time period'' means any one of the three following periods:

(i) The first year covered by the most recently adopted concurrent resolution on the budget.

(ii) The period of the first five fiscal years covered by the most recently adopted concurrent resolution on the budget.

(iii) The period of the five fiscal years following the first five fiscal years covered in the most recently adopted concurrent resolution on the budget.

(C) DIRECT-SPENDING LEGISLATION.—For purposes of this paragraph and except as provided in subparagraph (D), the term ''direct-spending legislation'' means any bill, joint resolution, amendment, motion, or conference report that affects direct spending as that term is defined by and interpreted for purposes of the Balanced Budget and Emergency Deficit Control Act of 1985.

(D) EXCLUSION.—For purposes of this paragraph, the terms ''direct-spending legislation'' and ''revenue legislation'' do not include—

(i) any concurrent resolution on the budget; or

(ii) any provision of legislation that affects the full funding of, and continuation of, the deposit insurance guarantee commitment in effect on the date of the enactment of the Budget Enforcement Act of 1990.

(E) BASELINE.—Calculations prepared pursuant to this paragraph shall—

(i) use the baseline used for the most recently adopted concurrent resolution on the budget; and

(ii) be calculated under the requirements of subsections (b) through (d) of section 257 of the Balanced Budget and Emergency Deficit Control Act of 1985 for fiscal years beyond those covered by that concurrent resolution on the budget.

(F) PRIOR SURPLUS.—If direct spending or revenue legislation decreases the on-budget surplus, increases the on-budget deficit, or causes an on-budget deficit when taken individually, then it must also decrease the on-budget surplus, increase the on-budget deficit, or cause an on-budget deficit when taken together with all direct spending and revenue legislation enacted since the beginning of the calendar year not accounted for in the baseline under subparagraph (E)(i).

(2) WAIVER.—This subsection may be waived or suspended in the Senate only by the affirmative vote of three-fifths of the Members, duly chosen and sworn.

(3) APPEALS.—Appeals in the Senate from the decisions of the Chair relating to any provision of this subsection shall be limited to 1 hour, to be equally divided between, and controlled by, the appellant and the manager of the bill or joint resolution, as the case may be. An affirmative vote of three-fifths of the Members of the Senate, duly chosen and sworn, shall be required in the Senate to sustain an appeal of the ruling of the Chair on a point of order raised under this subsection.

(4) DETERMINATION OF BUDGET LEVELS.—For purposes of this subsection, the levels of new budget authority, outlays, and revenues for a fiscal year shall be determined on the basis of calculations made by the Committee on the Budget.

(5) DECLARATION OF WAR.—This subsection shall not apply in any fiscal year in which a declaration of war is in effect.

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